

Message Text

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ACTION NEA-09

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FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 3970

INFO AMEMBASSY ABU DHABI

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMCONSUL DHAHRAN

UNCLAS BEIRUT 5038

E.O. 11652: N/A

TAGS: ENRG, TC

SUBJECT: ABU DHABI NOT READY FOR FULL CONTROL

REF: ABU DHABI 179, 844

SUMMARY: IN MEES INTERVIEW, UAE OILMIN SAID ABU DHABI NOT YET READY FOR FULL CONTROL OF ITS OIL INDUSTRY, ALTHOUGH COMPANIES AGREEABLE TO 100 PER CENT TAKEOVER AND HAD EVEN URGED TOTAL NATIONALIZATION THEIR ASSETS. HE SAID ABU DHABI SEARCHING FOR NEW RELATIONSHIP WITH COMPANIES SUITABLE ITS RESOURCES AND NEEDS. HE SEEMED TO SPEAK FOR ABU DHABI, NOT UAE, AND IT NOT CLEAR WHETHER 100 PER CENT TAKEOVER RULED OUT FOR TIME BEING.
END SUMMARY

1. IN INTERVIEW WITH MIDDLE EAST ECONOMIC SURVEY (MEES) EDITOR/PUBLISHER FUAD ITAYIM PUBLISHED APRIL 18, UAE OILMIN AL-OTAIBA SAID THAT WHILE ABU DHABI COMMITTED TO EVENTUAL 100 PER CENT TAKEOVER OF ITS OIL INDUSTRY IT IS NOT YET READY FOR
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EFFECTIVE CONTROL: "WE ARE NOW AT THE 60 PER CENT STAGE OF

PARTICIPATION AND BEFORE WE PROCEED ANY FURTHER WE OUGHT TO ASK OURSELVES WHETHER WE ARE IN POSITION TO RUN THE OIL INDUSTRY. ANSWER IS CLEARLY NO, BECAUSE IF IT IS EFFECTIVE CONTROL WE ARE AFTER - CONTROL IN LEGAL, FISCAL, ECONOMIC AS WELL AS TECHNICAL FIELDS - THEN THIS IS NOT THE SAME AS NOMINAL PARTICIPATION. WHENEVER WE SPOKE OF PARTICIPATION WE MEANT EFFECTIVE PARTICIPATION, ONE IN WHICH EACH OF THE PARTNERS CONTRIBUTES HIS PROPORTIONATE SHARE OF THE RESPONSIBILITY. WE MUST BE HONEST WITH OUR PEOPLE. RUNNING OIL INDUSTRY IS NO MEAN TASK. WE LACK THE TRAINED PEOPLE TO RUN THE INDUSTRY. FURTHERMORE WE HAVE A PECULIAR ECONOMY WITH A VERY ADVANCED SECTOR COMPRISING THE OIL INDUSTRY AND A VERY BACKWARD SECTOR COMPRISING ALL OTHER ECONOMIC OR INDUSTRIAL ACTIVITIES IN THE COUNTRY. WE CANNOT ATTAIN ECONOMIC BALANCE UNLESS WE MERGE THE WEAKER SECTOR WITH THE STRONGER.

2. OILMIN SAID THAT IN PRELIMINARY TALKS OIL COMPANIES NOT ONLY READILY AGREED TO 100 PER CENT TAKEOVER BUT URGED TOTAL NATIONALIZATION THEIR ASSETS. OILMIN SAID UAEG BELIEVES THAT COMPANIES NO LONGER INTERESTED IN NEW INVESTMENTS IN ABU DHABI, PREFERRING OTHER AREAS SUCH AS NORTH SEA OR ALASKA. HE ATTRIBUTED THIS TO REDUCTION OF ABU DHABI PROFIT MARGIN TO 20 CENTS/BBL AND SAID 45-50 CENTS WOULD HAVE BEEN "MORE REASONABLE".

3. ABU DHABI WILL OBSERVE TAX AND PRICE DECISIONS TAKEN LAST NOVEMBER BY SAUDI ARABIA, QATAR AND ABU DHABI BUT IS SEARCHING FOR NEW RELATIONSHIP WITH OPERATING OIL COMPANIES, POSSIBLY ONE SHORT OF FULL TAKEOVER AND UNLIKE EXISTING PARTICIPATION AGREEMENTS, BECAUSE "COMPANIES' EXPERTISE NEEDED TO DEVELOP LARGE UNEXPLOITED OIL/GAS RESERVES SUCH AS UPPER ZAKUM STRUCTURE, HE SAID.

4. ASKED HOW TO MAINTAIN CURRENT LEVEL OIL PRICES, OILMIN NOTED THAT OPEC AS YET UNABLE AGREE ON PRODUCTION PROGRAMMING BUT HE HAS SUGGESTED ALTERNATIVE CALLED "ORGANIZATION OF PRODUCTION". ESSENTIALLY, THIS SEEMS INVOLVE CALCULATING AMOUNT OF OPEC SURPLUS PRODUCTION AND THAN ASKING EACH OPEC MEMBER TO REDUCE OUTPUT "BY AS MUCH UNCLASSIFIED

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AS IT CAN WITHOUT IMPOSING ANY SPECIFIC QUOTA ON IT". FAILURE TO CONTROL OVER-PRODUCTION WILL LEAD TO BREAK IN OIL PRICES, HE SAID, CALLING THIS CONTRARY INTERESTS OF PRODUCERS, COMPANIES AND CONSUMER PLANS FOR ALTERNATIVE ENERGY PROGRAMS. COMMENT: AS PUBLISHED, INTERVIEW INDICATED OILMIN SPEAKING OF ABU DHABI, NOT UAE, OIL POLICY. CANNOT DISCERN WHETHER HE RULING OUT PRO-FORMA 100 PER CENT TAKEOVER WITH CONTINUED COMPANY PRESENCE OR MERELY STATING OBVIOUS,

I.E., THAT ABU DHABI NOT YET PREPARED TO OPERATE OIL
INDUSTRY WITHOUT COMPANIES.
GODLEY

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